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RUEHHK/AMCONSUL HONG KONG 6383  
RUEHGH/AMCONSUL SHANGHAI 0123  
RUEHC/DEPT OF AGRICULTURE WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001582

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STATE FOR EAP/RSP/TC, EB/TPP AND ISN/MTR, STATE PASS USTR  
FOR ALTBACH, WINELAND, STRATFORD

E.O. 12958: DECL: 05/03/2016

TAGS: [ECON](#) [ETRD](#) [EINV](#) [TW](#)

SUBJECT: AIT DIRECTOR CALLS ON MINISTER OF ECONOMIC AFFAIRS

REF: A. TAIPEI 1321

[1](#)B. TAIPEI 1359

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Classified By: Director Stephen Young, reason 1.4 b/d

[1](#)1. (SBU) Summary: During his May 1st introductory call on Taiwan's Minister of Economic Affairs (MOEA) Hwang Ing-san, Director Young raised upcoming consultations on bilateral trade issues under the Trade and Investment Framework Agreement (TIFA), noting that agricultural market access, IPR protection, government procurement and pharmaceuticals were sure to be on the U.S. agenda. The Director was optimistic that Taiwan could meet the challenges posed by China's rapid economic rise but emphasized the serious nature of our concerns about Taiwan's export controls. Minister Hwang expressed his commitment to address U.S. trade concerns, noting that his staff was in daily communication with AIT about export controls, but said combating IPR violations on Taiwan campuses posed a difficult cultural challenge. Minister Hwang accused China of waging a political war against Taiwan, including by pressuring Taiwan investors on the Mainland to actively oppose Taiwan sovereignty. He urged the U.S. to consider FTA discussions with Taiwan. The Director responded that the U.S. would need to see clear economic benefits before considering an FTA and urged MOEA to focus on resolving bilateral trade issues under the TIFA process. End Summary.

[1](#)2. (U) On May 1st, Director Young made an introductory call on MOEA Minister Hwang Ing-san. Minister Hwang was appointed in January 2006 after serving as the Chairman of Taipower and Chairman of Taiwan Tobacco & Liquor Corporation.

PREPARING FOR TIFA TALKS  
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[1](#)3. (U) Director Young explained that our agenda for TIFA will likely include our long-standing concerns about agricultural market access, IPR protection, pharmaceutical market access, telecom policy, and Taiwan's role in the WTO. Hwang replied that Taiwan had addressed many of the issues raised in previous meetings and would continue to work hard to improve the trade relationship. The Director noted that the previous TIFA meeting was in Washington in 2004 and suggested that

annual meetings would be a good opportunity to continue to improve Taiwan-U.S. trade relations.

#### COPYING PART OF CAMPUS CULTURE?

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14. (U) Director Young congratulated Taiwan on its continuing improvements in intellectual property protection, but noted that Taiwan's position on the Special 301 Watch List indicated that there are still areas in which Taiwan can do better. MOEA needs to work with the Ministry of Education and the Department of Health to combat IPR piracy on university campuses and take steps to stop counterfeit pharmaceuticals that pose a health and safety problem for the people of Taiwan. Minister Hwang agreed that IPR violations on campus pose a difficult challenge. Chinese culture encourages education and therefore does not see a moral problem in copying for educational purposes. It is difficult to control over 180 colleges in Taiwan; enforcement of IPR has especially been a challenge at smaller universities. Minister Hwang concurred that efforts to prevent pharmaceutical counterfeiting need to be increased and noted that he has directed Deputy Minister Steve Chen to coordinate efforts to address this issue.

#### NO NEWS ON JAPAN EXPORT CONTROL STORY

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15. (C) Referring to a recent expose in the Japanese press (reftels), the Director inquired about progress on strengthening Taiwan's export control measures. Export controls are a serious concern for the United States, and the Director asked Bureau of Foreign Trade (BOFT) to exert more scrutiny over transshipments and do more to enact stringent export control regulations. Minister Hwang stated that both Taiwan and Japan have looked into the assertions made by the Japanese press, but have been unable to find evidence to

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substantiate the allegations that the PRC is using precision machine tools from Taiwan to produce weapons.

16. (C) BOFT Director General Franco Huang confirmed that Taiwan is focused on addressing transshipment issues and has been working with U.S. Container Security Initiative Officers to share intelligence. Both sides are actively cooperating, said Huang, with almost daily contact between BOFT and AIT on export controls. Huang thanked AIT for its responsiveness to requests for information on end-users.

#### EYE ON THE PRIZE - FTA

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17. (C) Minister Hwang compared Secretary Rice's Transformational Diplomacy with Taiwan's plans for a Free Trade Agreement (FTA), saying FTA's are Taiwan's transformational diplomacy. Director Young replied that there are still several issues that need to be resolved prior to discussion of an FTA between the U.S. and Taiwan. Taiwan needs to focus first on methods to resolve issues brought up during TIFA talks, said the Director. The U.S. Trade Promotion Authority (TPA) will expire in July 2007, and USTR's staff is stretched thin with negotiations in South Korea and Malaysia. This does not mean that an FTA should not be on the agenda, only that there are obstacles to consider, including the reaction of the PRC government. Director Young noted that he had discussed an FTA with Deputy Secretary Zoellick and Undersecretary for Economic Affairs

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Shiner while he was in Washington, who emphasized that the U.S. needs to clearly see economic benefits. The United States values Taiwan as an important market, but we still have problems in agricultural trade, among other issues, that will require additional efforts from all parties to resolve.

18. (C) Minister Hwang responded that Taiwan understands that the U.S. position on a U.S-Taiwan FTA needs to take into account the reaction from China. He acknowledged that FTA talks are would be difficult now and attributed the difficulties to fear of China's reaction. The Director replied that Taiwan's problems with China are mostly political, and asked if MOEA would pursue any new economic initiatives directed towards China in the next few months. Minister Hwang noted that Taiwan was removing additional items from its list of restricted imports from China and that restrictions on Chinese tourists would soon be eased.

#### FACING CHALLENGES FROM CHINA

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19. (SBU) The Director observed that China is using its growing influence in international organizations to restrict Taiwan's ability to participate, even in organizations where it is a member. He advised that Taiwan should show patience and participate constructively to prove that Taiwan is a responsible stakeholder in international organizations in order to generate greater international support. Director Young noted that the U.S. and European Union were working to help Taiwan accede to the WTO Agreement on Government Procurement (GPA). He suggested that a bilateral GPA would be a good way to expand our bilateral cooperation. Hwang agreed that China is getting stronger and that Taiwan needs patience to work cooperatively with its friends without fear of Chinese opposition.

110. (SBU) The Director noted the pessimistic views of the international business community about doing business in Taiwan, as raised by the American Chamber of Commerce in Taiwan. Director Young said he is hopeful that economic development in China will eventually lead to greater political freedoms, creating more opportunities for Taiwan to talk with China in the future. Taiwan has overcome many challenges, said the Director, and the talents of its people will help Taiwan face economic challenges on the horizon.

111. (U) Hwang suggested that China is engaging in a political war against Taiwan and is pressuring Taiwan investors as part of their strategy to undercut support for the Chen administration. He noted that he had met with some of the businessmen who accompanied KMT Honorary Chairman Lien Chan's delegation to China for the Cross-Strait Economic and

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Trade Forum meetings in April. Minister Hwang suggested that investors will do whatever is necessary to seek advantages for themselves and insisted that the true views of most Taiwan businessmen were not reflected in the media reports of the visit.

#### IN WITH THE NEW... AND THE OLD

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112. (U) Director Young told the Minister that a recent trip to the Taichung Science Park had reinforced his view that Taiwan's economy is not hollowing out, in spite of some analysts' fears to the contrary. He noted that Taiwan continued to be a leader in cutting-edge technology. Hwang responded that all industries are globalizing; this requires the government to continually work to upgrade both new and traditional businesses. Traditional companies account for 56% of Taiwan's industrial output while 44% is derived from new industries. Minister Hwang added that the government has a responsibility to help those negatively affected by globalization. Director Young suggested that training programs were essential for workers in traditional industries to upgrade their skills. Minister Hwang agreed, noting that these are economic and social problems, not just productivity problems.

#### MAKING A PITCH FOR THE ENVIRONMENT

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¶13. (U) Given Taiwan's dependence on oil imports, the Director noted that Taiwan could benefit from efforts to improve energy efficiency. Minister Hwang responded that Taiwan recognizes the global trend and is working to improve energy efficiency by creating a program that issues special marks to high efficiency products. Taiwan is also encouraging new energy-producing industries, including ethanol manufacturing, solar panels, and wind power. The Director encouraged Taiwan to embrace hybrid cars as a way to reduce dependence on foreign oil. Minister Hwang replied that Taiwan is a leader in production of electric bicycles and other alternative forms of electric transportation. He regretted that nuclear power had been poorly marketed to the people of Taiwan.

¶14. (SBU) COMMENT: Minister Hwang spent 21 years in the private sector before joining the government to first head the state-owned Taiwan Tobacco and Liquor Corporation and then Taiwan Electric Power. Based on his cynical comments about the willingness of Taiwan businessmen to "perform" for the Mainland, Minister Hwang's previous experience in the private sector appears to have left him unsympathetic to the concerns of businesses eager to promote closer cross-Strait economic cooperation. However, the Minister seems to have been well briefed on U.S. concerns and displayed a willingness to do what he can to address bilateral trade issues. End Comment.  
YOUNG